SaskTel

Financial Statements of

SASKATOON 2 PROPERTIES LIMITED PARTNERSHIP

December 31, 2004

105-04360/

KPMG LLP
Chartered Accountants
600 - 128 Fourth Avenue South
Saskatoon SK S7K 1M8

Telephone (306) 934-6200
Fax (306) 934-6233
Internet www.kpmg.ca

AUDITORS' REPORT TO THE LIMITED PARTNERS

We have audited the statement of financial position of Saskatoon 2 Properties Limited Partnership as at December 31, 2004 and the statements of operations, limited partners' equity and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Saskatoon, Canada
January 14, 2005

Statement of Operations

For the period ended December 31,	2004 (twelve months)	2003 (three months)
(Thousands of dollars)		
Operating revenues	**$3,641**	$780
Operating expenses		
Operating expenses	**1,776**	447
Depreciation and amortization	**498**	116
	2,274	563
Income from operations	**1,367**	217
Interest expense	**671**	166
Net income	**$696**	$51

See accompanying notes

Statement of Limited Partners' Equity

For the period ended December 31,	2004 (twelve months)	2003 (three months)
(Thousands of dollars)		
Balance, beginning of period	**$51**	$-
Net income	**696**	51
Balance, end of period	**$747**	$51

See accompanying notes

Statement of Financial Position

As at December 31, (Thousands of dollars)	2004	2003
Assets		
Current assets		
Cash	**$311**	$268
Cash held in trust (Note 12)	**400**	400
Accounts receivable	**76**	4
Current portion of loan receivable (Note 3)	**16**	-
Prepaid expenses	**31**	23
	834	695
Loan receivable (Note 3)	**172**	-
Leasing costs and tenant inducements (Note 4)	**790**	92
Real estate assets (Note 5)	**10,010**	10,350
	$11,806	$11,137
Liabilities and limited partners' equity		
Current liabilities		
Accounts payable and accrued liabilities	**$380**	$119
Current portion of long-term debt (Note 6)	**308**	290
	688	409
Deferred revenue	**16**	14
Long-term debt (Note 6)	**10,355**	10,663
	11,059	11,086
Limited partners' equity		
Partners' capital, 101 units issued at $1.00 per unit	**-**	-
Partners' equity	**747**	51
	747	51
	$11,806	$11,137

See accompanying notes

On behalf of the Partnership

Robert Watson

Randy Stephanson

Statement of Cash Flows

For the period ended December 31,	2004 (twelve months)	2003 (three months)
(Thousands of dollars)		
Cash provided by (used in):		
Operating activities		
Net income	**$696**	$51
Items not affecting cash (Note 7)	**498**	116
Net change in non-cash working capital items (Note 8)	**183**	106
	1,377	273
Financing activities		
Proceeds from issuance of long-term debt	**-**	11,000
Repayment of long-term debt	**(290)**	(47)
	(290)	10,953
Investing activities		
Issuance of loan receivable	**(195)**	-
Repayment of loan receivable	**7**	-
Leasing costs and tenant inducements	**(738)**	(94)
Real estate expenditures	**(118)**	(10,464)
	(1,044)	(10,558)
Increase in cash	**43**	668
Cash and cash equivalents, beginning of period	**668**	-
Cash and cash equivalents, end of period	**$711**	$668
Interest paid	**$671**	$129

See Accompanying Notes

Notes to Financial Statements

Note 1 – Description of Business

Saskatoon 2 Properties Limited Partnership (the Partnership) is registered as a limited partnership in accordance with the *Partnership Act* of the Province of Saskatchewan. The Partnership was established for the purpose of acquiring and operating the Saskatoon Square (the rental property) located in Saskatoon, Saskatchewan. Colliers McClocklin Real Estate Corp. has been appointed as the rental property manager. The rental property is registered in the name of the Saskatoon 2 Management Ltd., general partner, who holds its interest in the rental property as the bare trustee for the Partnership.

The financial statements include only the assets, liabilities, capital, revenue and expenses of the Partnership and do not include any other assets, liabilities, revenues or expenses of the Partners.

Note 2 – Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with generally accepted accounting principles generally accepted in Canada.

Revenue recognition

The Partnership recognizes rental revenues evenly throughout the term of the lease.

Leasing costs and tenant inducements

Tenant inducement costs are capitalized and amortized over the term of the related leases.

Real estate assets

Real estate assets are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is computed on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Buildings	25 years
Deferred financing costs	5 years
Parkade lease	17 years

Income taxes

As the Partnership is unincorporated, no provision has been made in the accounts for partners' income taxes. These statements are of the Partnership only and do not include any other assets, liabilities, revenues and expenses of the limited partners.

Notes to Financial Statements

Note 2 – Summary of significant accounting policies (continued)

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management periodically reviews the carrying value of the Partnership's real estate assets and if management determines that the carrying value cannot be recovered from future cash flows, the unrecoverable amount is written off against income. Periodic reviews are also done of the estimated useful lives of the real estate assets to determine an adequate charge against income for amortization expense. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 3 – Loan receivable

	2004	2003
	(Thousands of dollars)	
Loan receivable from Saskatoon Health Region, a limited partner in the Partnership, repayable in minimum monthly installments of $2,068 including interest at prime plus 1% (currently 5%) amortized over 10 years. The Saskatoon Health Region has also agreed to make additional annual payments of no less than one-third of cash distributions; due June 30, 2014.	**$188**	$-
Less current portion of loan receivable	**(16)**	-
	$172	$-

Approximate principal repayments on the loan receivable over the next five years are as follows:

	(Thousands of dollars)
2005	$16
2006	17
2007	18
2008	19
2009	20
Thereafter	98
	$188

Notes to Financial Statements

Note 4 – Leasing costs and tenant inducements

	2004	2003
	(Thousands of dollars)	
Leasing costs and tenant inducements	$830	$94
Less accumulated amortization	40	2
	$790	$92

Note 5 – Real estate assets

	Cost	Accumulated depreciation and amortization	Net book value	
			2004	2003
			(Thousands of dollars)	
Buildings	$8,964	$445	$8,519	$8,758
Deferred financing costs	191	48	143	181
Land	367	-	367	367
Parkade lease	1,060	79	981	1,044
	$10,582	$572	$10,010	$10,350

Notes to Financial Statements

Note 6 – Long-term debt

	2004	2003
	(Thousands of dollars)	
Due to The Manufacturers Life Insurance Company, secured by way of a first mortgage on the real property, bearing interest at 6.28% amortized over 20 years; blended monthly installments of $80,078; due October, 2013	**$10,663**	$10,953
Less current portion of long-term debt	**308**	290
	$10,355	$10,663

Approximate principal repayments due in the next five years are as follows:

	(Thousands of dollars)
2005	$308
2006	328
2007	349
2008	371
2009	391

Note 7 – Items not affecting cash

	2004	2003
	(Thousands of dollars)	
Depreciation and amortization	**$498**	$116

Note 8 – Net change in non-cash working capital items

	2004	2003
	(Thousands of dollars)	
Accounts receivable	**$(72)**	$(4)
Prepaid expenses	**(8)**	(23)
Accounts payable and accrued liabilities	**261**	119
Deferred revenue	**2**	14
	$183	$106

Notes to Financial Statements

Note 9 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown Corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and the Saskatchewan Telecommunications Holding Corporation (collectively referred to as "related parties"). Also included are transactions with corporations and partnerships controlled by members of the Limited Partnership.

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding with corporations and partnerships controlled by members of the Limited Partnership and entities under common or joint control or significant influence with the Government of Saskatchewan are as follows:

	2004	2003
	(Thousands of dollars)	
Operating revenues	**$1,759**	$330
Accounts receivable	**32**	-
Accounts payable and accrued liabilities	**4**	3

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes hereto.

Note 10 – Financial instruments

Fair value

The carrying amounts of cash, cash held in trust, accounts receivable and accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments.

The carrying value of the loan receivable approximates its fair value as the interest rate on the instrument is based upon prime rates of interest plus a market premium.

The carrying value of long term debt approximates its fair value which is determined as the amount at which it could be exchanged between willing parties, based on current markets for instruments with similar characteristics, such as risk, principal and remaining maturities.

Note 11 – Commitment

The Partnership is committed to an annual payment of $20,876 pursuant to an elevator maintenance contract expiring September 30, 2009. The payments are subject to annual escalation changes.

Notes to Financial Statements

Note 12 – Subsequent Event

In January of 2005, the $400,000 cash in trust held by the Manufacturers Life Insurance Company to be used for tenant inducements was received by the Partnership.